

Chairperson: Matthew M. Janes, 278-4570

Clerk: Lauri Henning, 278-4227

SELECT COMMITTEE ON DEFERRED COMPENSATION

Thursday, September 4, 2003 – 3:00 p.m.

Milwaukee County Courthouse – Room 203-P

MINUTES

CASSETTE #7: Side A, #4-END; Side B, #1-#400

PRESENT: Robert Murphy, County Board Senior Research Analyst; Steve Cady*, County Board Fiscal and Budget Analyst; and Matthew Janes, Employee Benefits and Compensation Manager (Chair)

EXCUSED: Mary Ann Grimes, Deputy Corporation Counsel; Terry D. Kocourek, Fiscal and Budget Administrator

*Steve Cady is the new designee for Supervisor Richard D. Nyklewicz, Jr., Finance and Audit Committee Chairman (replacing Rob Henken)

SCHEDULED ITEMS:

**** CLOSED SESSION ****

The Committee may adjourn into closed session under the provisions of Wisconsin Statutes, Section 19.85(1)(f), for the purpose of discussing the following matter(s). The Committee may reconvene into open session to take whatever action(s) it may deem necessary on the said matter(s).

1. 03DC1 Appeal(s) from deferred compensation participant(s) of decisions regarding request(s) for hardship withdrawal(s) of funds from Milwaukee County's Deferred Compensation Plan.

A-23 **APPEARANCE:**
N'Kenza Whitlow, Great West Retirement Services

There was one appeal of the decision by the Plan administrator to deny a request for hardship withdrawal.

Ms. Whitlow explained the request and advised that Great West had to deny it because it did not comply with the terms of the Internal Revenue Code for hardship withdrawal.

Discussion ensued, including appearance by the individual appealing the denial by Great West.

SCHEDULED ITEMS (CONTINUED):

ACTION BY: (Murphy) adjourn into closed session under the provisions of Section 19.85(1)(f) of the Wisconsin Statutes for the purpose of discussing the above matter. The Committee may reconvene into open session to take whatever action(s) it may deem necessary on the said matter. 3-0

AYES: Murphy, Cady & Janes (Chair) – 3

NOES: 0

EXCUSED: Grimes & Kocourek

The Committee adjourned into closed session at approximately 3:35 p.m. and reconvened in open session at approximately 4:00 p.m.

ACTION BY: (Murphy) lay over for two weeks for the purpose of obtaining additional documentation from Great West to get further clarification on whether there is any circumstance under which this request would meet the Internal Revenue Code requirements so hardship withdrawal could be granted.

Comments ensued.

THERE BEING NO OBJECTION, LAY OVER WAS SO ORDERED BY THE CHAIR.

ENNIS KNUPP & ASSOCIATES

2. 03DC6 Second Quarter 2003 Performance Report/Recommendation to Terminate Investment Option.

A-490

APPEARANCES:

Russell K. Ivinjack and Laurel Nicholson, Ennis Knupp & Associates

Mr. Ivinjack reviewed the second quarter performance report after which Ms. Nicholson gave an overview of investment highlights. She provided Committee members with a performance update through July 31, 2003. Also provided to Committee members was a report, dated August 14, 2003, regarding changes to the Lehman Aggregate, effective October 1, 2003. Copies of the aforesaid reports are attached to the original of these minutes.

The Committee took no action regarding these informational reports.

A communication, dated August 15, 2003, was submitted by Ennis Knupp, which sets forth the results of an evaluation performed on the Vanguard U.S. Growth

SCHEDULED ITEMS (CONTINUED):

Fund, a copy of which is attached to the original of these minutes. Their conclusion is that the Vanguard U.S. Growth Fund should be terminated and replaced with another growth stock option.

In response to a query by Chairman Janes, Mr. Ivinjack recommended that a search be conducted for another large cap growth option to serve as a replacement to the Vanguard U.S. Growth Fund. It's been four years since a search has been conducted for the County's plan. Ennis Knupp would go out and look at managers they think would serve as good options. In terms of rating those firms, they would all fall under the good or excellent category. The list would start with about eight to ten names, which would be narrowed down to three to four that would be presented to the Committee as potential replacements. It typically takes five to eight weeks to go through the search process and to prepare and submit a report to the Committee.

Chairman Janes asked what would happen to the Vanguard U.S. Growth Fund in the meantime. Mr. Ivinjack replied that it would continue to be offered until a replacement was identified and recommended. Ms. Nicholson pointed out that only 1% of the Plan's assets would be affected, therefore, any change would not be widely felt by participants.

Mr. Ivinjack advised that a separate charge of between \$13,000 and \$18,000 would be required to conduct such a search.

Questions and comments ensued.

ACTION BY: (Murphy) approve Ennis Knupp's recommendation to work towards terminating the relationship with Vanguard U.S. Growth Fund and that Ennis Knupp conduct a search for a new large cap growth fund.

This being his first meeting as a member of this Committee, Mr. Cady indicated that he was uncomfortable supporting the above motion today, especially with two Committee members absent. He would like to solicit the input of the other two Committee members as this is a very important decision.

In response to a query by Mr. Murphy, Mr. Ivinjack advised that the timeframe is not of the essence, however, the preference would be sooner rather than later. The assets are not at risk. If additional time needs to be taken, that would not be inappropriate. This is a long-term decision.

Thereafter, Mr. Murphy WITHDREW his motion.

ACTION BY: (Cady) lay over to the call of the Chair and, in the meantime, ask Ennis Knupp to watch the Vanguard U.S. Growth Fund and report back as to

SCHEDULED ITEMS (CONTINUED):

how it's changed since the last report, at which time the full Committee would have a chance to take a look at this recommendation and make an appropriate decision. NO OBJECTION, SO ORDERED.

GREAT WEST BENEFITSCORP

3. 03DC7 Summary Report on Milwaukee County's Deferred Compensation Plan. **(INFORMATIONAL)**

B-287 **APPEARANCE:**
N'Kenza Whitlow, Great West Retirement Services

Ms. Whitlow reviewed the subject report, a copy of which is attached to the original of these minutes.

Questions ensued.

The Committee took no action regarding this informational report.

4. 03DC8 Corporate name change. **(INFORMATIONAL)**

B-372 **APPEARANCE:**
N'Kenza Whitlow, Great West Retirement Services

Ms. Whitlow reported that, effective September 1, 2003, Great West BenefitsCorp will operate under the name of "Great West Retirement Services." A copy of an August 25, 2003 communication explaining the name change is attached to the original of these minutes.

<p><i>ADA accommodation requests should be filed with the Milwaukee County Office for Persons with Disabilities, 278-3932 (voice) or 278-3937 (TTD), upon receipt of this notice.</i></p>

This meeting was recorded on tape. Copies of communications, reports, etc., are attached to the original of these minutes, which may be reviewed upon request to the Chief Committee Clerk. The official copy of these minutes is available in the County Board Committee Services Division.

Length of Meeting: 3:10 p.m. to 4:50 p.m.

Adjourned,

Lauri Henning

Chief Committee Clerk

Select Committee on Deferred Compensation

Select Committee on Deferred Compensation

September 4, 2003

SCHEDULED ITEMS (CONTINUED):

Acting Chairperson: Robert Murphy, 278-5263

Clerk: Lauri Henning, 278-4227

SELECT COMMITTEE ON DEFERRED COMPENSATION

Wednesday, November 12, 2003 – 10:00 a.m.

Milwaukee County Courthouse – Room 203-P

M I N U T E S

CASSETTE #7: Side B, #401-END

CASSETTE #8: Side A, #1-#187

PRESENT: William Domina, Corporation Counsel; Terry D. Kocourek, Fiscal and Budget Administrator; Steve Cady, County Board Fiscal and Budget Analyst; and Robert Murphy, County Board Senior Research Analyst (Acting Chair)

EXCUSED: Matthew Janes, Employee Benefits and Compensation Manager

SCHEDULED ITEMS:

**** CLOSED SESSION ****

The Committee may adjourn into closed session under the provisions of Wisconsin Statutes, Section 19.85(1)(f), for the purpose of discussing the following matter(s). The Committee may convene into open session to take whatever action(s) it may deem necessary on the said matter(s).

1. 03DC1 Appeal(s) from deferred compensation participant(s) of decisions regarding request(s) for hardship withdrawal(s) of funds from Milwaukee County's Deferred Compensation Plan.

APPEARANCE:

N'Kenza Whitlow, Great West Retirement Services

There was one appeal of the decision by the Plan administrator to deny a request for hardship withdrawal.

Ms. Whitlow explained the request and advised that Great West had to deny it because it did not comply with the terms of the Internal Revenue Code for hardship withdrawal.

Discussion ensued, including appearance by the individual appealing the denial by Great West.

SCHEDULED ITEMS (CONTINUED):

ACTION BY: (Domina) approve the recommendation of the Plan administrator to deny the appeal request based on the evidence presented. 4-0

AYES: Domina, Kocourek, Cady & Murphy (Chair) – 4

NOES: 0

EXCUSED: Janes

ADA accommodation requests should be filed with the Milwaukee County Office for Persons with Disabilities, 278-3932 (voice) or 278-3937 (TTD), upon receipt of this notice.

This meeting was recorded on tape. Copies of communications, reports, etc., are attached to the original of these minutes and may be reviewed upon request to the Chief Committee Clerk. The official copy of these minutes is available in the County Board Committee Services Division.

Length of Meeting: 10:05 a.m. to 10:40 a.m.

Adjourned,

Lauri Henning

Chief Committee Clerk

Select Committee on Deferred Compensation

Chairperson: Matthew M. Janes, 278-4570
Clerk: Maribeth Welchman, 278-4226

SELECT COMMITTEE ON DEFERRED COMPENSATION

Wednesday, December 17, 2003 – 9:30 a.m. to 11:45 a.m.
Milwaukee County Courthouse, Room 203-P

MINUTES

TAPE NO. 8, Side A, No. 190 to end of tape
TAPE NO. 8, Side B, No. 001 to end of tape
TAPE NO. 9, Side A, No. 001 to 420

ROLL CALL:

Present: Ms. Mary Ann Grimes, Mr. Robert Murphy, Mr. Steven Cady and Mr. Matthew Janes (Chairperson)

Excused: Mr. Terry Kocourek (later present)

Scheduled Items:

Chairperson Janes explained that he would take the agenda items in the following order: items 3, 1, 4, 2, 5, 6 and 7.

1. 03DC9 Third Quarter 2003 Performance Report from Ennis Knupp & Associates. **(INFORMATIONAL) (NO ACTION REQUIRED)** (Report entitled: "Milwaukee County Preliminary Return Summary Ending 11/30/2003.) **(Copies attached to original copy of these minutes.)** (Tape No. 8B-082)

APPEARANCES: Mr. Russell Ivinjack, Ennis Knupp & Associates
Ms. Laurel E. Nicholson, Ennis Knupp & Associates

Ms. Nicholson summarized the subject report, including third quarter updated numbers ending in November (Tape 8B-100 to 8B-375). It was noted that the marker for Heartland Value (page 5) should be located directly beneath the 'H' of the word "Heartland." Discussion ensued, including how ranking is achieved among the stock funds.

Mr. Ivinjack stated that for the next meeting, Ennis Knupp can provide an analysis versus benchmarks for the funds we discussed – JP Morgan, Capital Growth, Lord Abbett, T. Rowe – and also narrow the focus to style among peers. Chairperson Janes requested that a style index for the internationals also be provided for the next meeting.

Scheduled Items (Continued):

2. 03DC10 Third Quarter 2003 Summary Report on Milwaukee County's Deferred Compensation Plan from Great West Retirement Services. **(INFORMATIONAL)**
(Copy attached to original copy of these minutes.) (Tape No. 8B-575)

APPEARANCES: N'Kenza Whitlow, Great West

Ms. N'Kenza gave a brief presentation. Chairperson Janes questioned how the increase of retirees among county employees has effected the workload. Ms. Whitlow stated that there is a 50/50 split relative to retirement and participant questions. The committee discussed looking at allowing Great West to move retiree funds into a Great West IRA, which is currently not allowed. Mr. Cady expressed interest in the data of the possible effect of retirees moving money out of the plan and the number of people who use the website investment service. Mr. Murphy requested information on how many people have signed for retirement with Great West.

Chairperson Janes stated that no action is required on this item.

3. 03DC11 Mutual Trading Controversy.
A. Analysis of current controversy.
B. Action recommendations.
(Reports from Ennis Knupp & Associates entitled, "Market Timing and Late Trading Update" and "Heartland Advisors Update;" from Great-West Benefits Corp. entitled "Focus on 457;" "Update on the Mutual Fund Trading Practices Debacle" from Chet B. Waldman and Andrew E. Lencyk; Milwaukee Journal/Sentinel article entitled "SEC accuses Heartland of fraud, insider trading;" and from President, Heartland Advisors dated December 14, 2003.)
(Copies attached to original copy of these minutes.)

APPEARANCES: Mr. Russell Ivinjack, Ennis Knupp & Associates
Mr. Eric J. Miller, Portfolio Manager, Heartland Advisors
Mr. Michael Sole, Great West Plan Administrator
Ms. Laurel E. Nicholson, Ennis Knupp & Associates

Mr. Ivinjack summarized the "Market Timing and Late Trading Update" report dated December 12, 2003, and a recommendation to direct the committee to write a letter to the SEC against a "hard-close" and for the ability to use fair-value pricing within mutual funds. He explained that after market trading, which is clearly illegal, allows an investor to trade after the markets have closed at 8:00 p.m. while getting the closing prices as of 4:00 p.m. (acting upon new information at old prices); marketing timing in a number of mutual fund vehicles, particularly international equity funds, causes pricing to become stale because it only occurs once a day; by anticipating what is going to

Scheduled Items (Continued):

happen in the foreign market based on what is happening in the United States the day before, rapid trades can be moved in and out; in many cases certain investors are allowed to do market timing trades against what the prospectus allows; and investors were provided information on what the fund holdings were or redemption fees were waived inappropriately for those market timing investors. He stated that it is clearly unethical to allow certain investors to use market timing to take advantage of others because with mutual funds you have to treat all investors the same; however, the SEC determines legality and what type of sanctions should be brought forward by other regulatory bodies, such as the Massachusetts Secretary of State or New York Attorney General. He explained that none of the funds in [the County] program are directly impacted [by these controversies].

Mr. Ivinjack stated that the SEC and some of the mutual fund industry groups have proposed changes in the way pricing occurs, called fair value pricing. He explained that a "hard close" for mutual funds (where all trades need to be in by a certain time in order for the trade to be processed at the 4:00 p.m. close) would disadvantage many participants; and a potential 2% redemption fee on all non-money market mutual funds to discourage market timing trades would have serious ramifications for the County's plan (and any participants in a defined contribution plan). He explained that the stance that Ennis Knupp is taking with all of these issues is to make sure all the facts are in place before any recommendations are made to clients to take action. He continued that in a number of cases where improper practices have been admitted to by the company, action has been recommended; where there is dispute between the fund company and the SEC, a "wait and see" approach is recommended. Mr. Ivinjack stated that [Ennis Knupp] is recommending that a letter be sent to the SEC encouraging them to allow fair value pricing of mutual funds and not to impose a "hard close" prior to the 4:00 p.m. Eastern Standard Time practice that is currently in place.

Discussion ensued regarding: fair market pricing, in particular in the European, Asian and overseas markets due to the time differences; the practice in the third-party arena in which trades received by the close of the market are settled by third-party administrators who run their programs overnight to allow for same day transactions; and examples of current practices and potential new restrictions (Tape No. 8A-450 to 520).

Mr. Miller, referring to a Journal/Sentinel articles entitled "SEC accuses Heartland of fraud, insider trading" dated December 3, 2003, stated that the value fund is in great shape; issues of the pricing valuation, and the issues surrounding this article and the SEC complaint, go back to high-yield bond funds which ran into severe difficulty in October, 2000. He explained that Heartland stopped managing those funds in the spring of 2001; the value fund

Scheduled Items (Continued):

is the flagship fund, with performance this year very strong and over the last three years, the fund is up 26%.

Discussion ensued regarding recommended action(s); the management team and possible market consequences if investors are moving out of mutual funds (Tape No. 8A-545). Chairperson Janes stated that in view of all of this, the pension board decided to take a wait and see attitude; there was a motion by the board to terminate the fund with Strong, but that motion failed and the final decision was to "watch and wait." (Tape No. 8B-025 to 045)

Mr. Cady moved to accept the recommendation of Great West [regarding the issue of insider trading and to take a "wait and see" approach]; request updates as they become timely; and look at the issue again at the next scheduled meeting. Ms. Grimes seconded the motion. Chairperson Janes called for a voice vote, and upon hearing no objections, so ordered. (Present: Grimes, Murphy, Cady and Janes (Chairperson) (Tape No. 8B-055) (See attached communication from Chairman, Milwaukee County Select Committee on Deferred Compensation, dated December 17, 2003.)

4. 03DC12 Recommendation to terminate investment option from Ennis Knupp & Associates. **(Laid over 9/4/03) (Copy attached to original copy of these minutes.)** (Tape No. 8B-435)

APPEARANCES: Mr. Russell Ivinjack, Ennis Knupp & Associates
Mr. Michael Sole, Great West Plan Administrator
Ms. Laurel E. Nicholson, Ennis Knupp & Associates

Ms. Nicholson stated that Vanguard US Growth Fund, compared to its peers and general performance overall, has been very disappointing. He suggested that by removing this fund, it will show that the committee is interested in offering participants the most competitive options. Mr. Ivinjack explained that Ennis Knupp recommends conducting a search to identify a new growth fund and to notify participants of a replacement to US Growth. He stated that assets can be reallocated, or mapped to the new growth option, an option that has occurred in the plan previously – most recently the Strong Corporate Bond Fund.

In response to a question regarding the process, Mr. Ivinjack explained that they would offer three to six candidates based on: stability of investment staff; large cap growth orientation; reasonable fees; the asset size (typically \$100 million in assets); and the administrative requirements of Great West (the funds already available with Great West and Milwaukee and Wisconsin-based firms). He stated that this process would take six to eight weeks to complete.

Scheduled Items (Continued):

Mr. Cady questioned if about 1% of the assets are in Vanguard US Growth (\$1.6 million based on membership), how many plan participants are holding [those assets]? Mr. Sole stated that he would find out and provide that information.

Mr. Cady moved to recommend that Ennis Knupp do a search for the purpose of trying to replace the Vanguard Fund; Ms. Grimes seconded the motion. Chairperson Janes called for a voice vote and on hearing no objections, so ordered. (Present: Grimes, Murphy, Cady and Janes (Chairperson) (Tape No. 8B-540)

5. 03DC13 Contract Renewals. **(Copy attached to original copy of these minutes.)** (Tape No. 8B-700 to 715)

APPEARANCES: Mr. Russell Ivinjack, Ennis Knupp & Associates

Chairperson Janes explained that the packet materials contain a communication from Ennis Knupp and Associates relative to the term of their contract, which was renewed as of October 1, 2003. He stated that they are proposing the annual fee for consulting services during the coming year would be \$48,000 and the fee for INVESTigate would also remain the same at \$45,000. He stated that no action is required on this item.

6. 03DC14 Continuing Education/Conference. (List Serve communication dated 12/4/03.) **(Copy attached to original copy of these minutes.)** (Tape No. 8B-725 to 9A-082)

Chairperson Janes explained that NAGDCA, the educational organization supporting a variety of activities relative to deferred compensation plans throughout the entire United States, is conducting an annual conference in Salt Lake City, Utah, September 10-14, 2004. He explained that members of this committee have fiduciary responsibility relative to the administration of this program, and he believes that one of the components of that responsibility is to maintain updated information on issues. He suggested consideration of setting a continuing educational requirement for people who sit on the deferred compensation committee, similar to the specific requirement for Pension Board members to engage in continuing educational activities.

(Tape 9A-001) Ms. Grimes said that she thinks the issue of continuing educational requirements should be put on the agenda for consideration. Mr. Sole stated that [Great West] can come to meetings and talk about any issues related to investments and what is going on in the marketplace. He explained that in the last year, Great West started a client-training program (typically three sessions a year in April, July and September) held in Great

Scheduled Items (Continued):

West's Chicago offices. He explained that these sessions are very general and cover a range of investment topics, including an outside lawyer to present fiduciary obligations.

Chairperson Janes stated that the agenda for the next meeting will list additional consideration of educational opportunities; however, he asked if the committee wanted to entertain a specific motion relative to considering authorizing members of this committee to go to the NAGDCA Conference next year. Mr. Sole stated that this is the best group for the County's needs; it pertains to governmental defined contribution plans and the administrative and legal issues pertaining to the plan. Ms. Nicholson stated that the conference is very good because in addition to general sessions which relate to specific plan sponsor topics, break-out sessions offer a wide range of topics.

Mr. Murphy moved to authorize members of the committee to attend this conference; Mr. Cady seconded the motion. Chairperson Janes called a voice vote as follows: AYES: Grimes, Murphy, Cady and Janes (Chairperson); OPPOSED: None. Upon hearing no objections, Chairperson Janes so ordered that the committee members are authorized to attend the NAGDCA conference in Salt Lake City, Utah.

7. 03DC15 2004 Operating Budget. **(Copy attached to original copy of these minutes.)**
(Tape No. 9A-083 to 410)

APPEARANCES: Mr. Russell Ivinjack, Ennis Knupp & Associates
Mr. Michael Sole, Great West Plan Administrator

Chairperson Janes stated that the committee [should] discuss whether or not to adopt an annual budget beginning in 2004. Mr. Kocourek stated that to do so would help the committee understand what we are trying to get accomplished and what it will cost. He suggested that as part of the development of that budget, consideration should be given to creating a position that would aid in the administration of the program. He also suggested asking the audit department (and paying them) to do an overview of the program as to how it is administered, the products we are offering and how we manage it.

Ms. Grimes suggested using an outside auditor. Mr. Ivinjack stated that about five years ago [Ennis Knupp] looked at practices relative to defined contribution plans in general, and that is something that can be updated (at no charge) in terms of the number of options, types of options, and the performance relative to peers. Chairperson Janes asked if that would provide the degree of independence that [the County] is looking for. Mr. Kocourek stated that he would appreciate getting that information, but what he is looking for is another step above that. Chairperson Janes suggested as part of this evaluation, it might

Scheduled Items (Continued):

be time to do a Request For Proposals (RFP) relative to the third-party administrator we are using and the other consultants we are using. Discussion ensued (Tape No. 9A-160 to 300).

Chairperson Janes stated he would approach the Milwaukee County Department of Audit relative to an overview study and bring something back at the next meeting. Ms. Grimes stated that the County may want an expert recommended by the audit department; Chairperson Janes said he would check with NAGDCA. No further action was taken on this item.

Mr. Sole stated that a couple of items that Great West would like to see as new business items are: developing a custom website; creating a subcommittee of this committee to help with the types of things required for the website, such as developing a domain, etc.; providing a kiosk booth, developed sometime in the first quarter; and a communication plan and focus for 2004.

Mr. Cady moved to adjourn the meeting at 11:45 a.m.; Mr. Murphy seconded the motion and Chairperson Janes so ordered (Tape No. 9A-419).

This meeting was recorded on tape, which is available for audit upon prior request of the Committee Clerk. The foregoing matters were not necessarily considered in agenda order. Committee "green files" contain copies of resolutions, amendments, ordinances, reports and correspondence, etc., which may be reviewed upon request of the Committee Clerk. The official copy of these minutes is available in the County Board office.

Adjourned: 11:45 a.m.

Maribeth Welchman
Committee Clerk

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